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MEMORANDUM

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Arizona Corporation Commission

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FROM: Steven M Olea
Director
Utilities Division

SEP 15 2010

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

DOCKETED BY

DATE: September 15, 2010

RE: STAFF REPORT FOR WINCHESTER WATER COMPANY, L.L.C.'S
APPLICATION FOR A RATE INCREASE. DOCKET NO. W-04081A-10-0173

Attached is the Staff Report for Winchester Water Company, L.L.C.'s application for a rate increase. Staff recommends approval of its rates and charges as shown in Schedule 4.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before September 24, 2010.

SMO:GTM:kdh

Originator: Gary T McMurry

Service List for: Winchester Water Company, L.L.C.
Docket No. W-04081A-10-0173

Mr. Phil Auernheimer
Winchester Water Company, L.L.C.
6700 North Oracle Road, Suite 234
Tucson, Arizona 85704

**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**WINCHESTER WATER COMPANY, L.L.C.
DOCKET NO. W-04081A-10-0173**

**APPLICATION
FOR A RATE INCREASE**

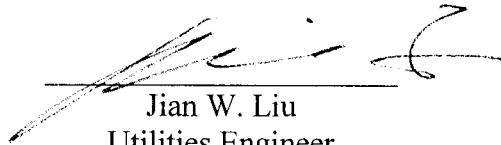
September 15, 2010

STAFF ACKNOWLEDGMENT

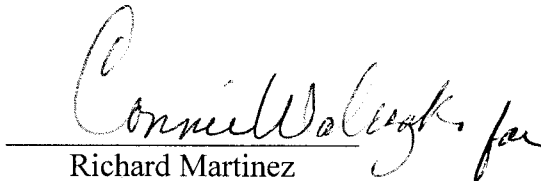
The Staff Report for Winchester Water Company, L.L.C., Docket No. W-04081A-10-0173, was the responsibility of the Staff members listed below. Gary T McMurry was responsible for the review and analysis of the Company's application, recommended revenue requirement, rate base and rate design. Jian Liu was responsible for the engineering and technical analysis. Richard Martinez was responsible for reviewing the Commission's records on the Company, determining compliance with Commission policies/rules and reviewing customer complaints filed with the Commission.



Gary T. McMurry
Public Utilities Analyst IV



Jian W. Liu
Utilities Engineer



Richard Martinez
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY
WINCHESTER WATER COMPANY, L.L.C.
APPLICATION FOR A RATE INCREASE
DOCKET NO. W-04081A-07-0466**

Winchester Water Company, L.L.C. serves potable water to an average of 137 residential users in a rural subdivision near Willcox, in Cochise County, Arizona.

Mr. and Mrs. Cardinal purchased the water system on September 30, 1987. The Cardinals initially operated the system as a partnership until July 18, 1995, when Winchester Water Company, L.L.C. was established. A Certificate of Convenience and Necessity ("CC&N") for the water system was first granted in Decision No. 35366, dated August 14, 1964. On September 24, 2002, the CC&N was transferred to Winchester Water Company, L.L.C. in Decision No. 65219. On April 24, 2008, Decision No. 70291 established the current rates which are in effect.

On January 13, 2010, Charles Cardinal sold Winchester Water Company to Mr. and Mrs. Phil Auernheimer. On April 12, 2010, Mr. Auernheimer filed an application for approval of Sale and/or Transfer of Certificate of Convenience and Necessity with the Arizona Corporation Commission. The status of that application is still pending.

On May 5, 2010, the Company filed an application for a rate increase. The Company proposes a 69.5 percent increase in operating revenue from \$41,367 to \$70,102 to provide a 14.37 percent rate of return on a \$142,943 original cost rate base.¹ The Company's proposed rates would increase the typical residential bill, with a median usage of 7,800 gallons, by \$16.50, from \$23.15 to \$39.65, for an increase of 71.3 percent (Schedule 5).

Staff recommends three rate base and three operating adjustments. The three rate base adjustments increase rate base by the net amount of \$902 from \$142,943 to \$143,845. The three operating income adjustments decrease operating expenses by the net amount of \$4,113 from \$49,557 to \$45,444. Staff recommends rates that generate a 45.87 percent increase in revenue from \$41,367 to \$60,342 to provide a 10.36 percent rate of return on a \$143,845 original cost rate base. Under Staff's recommended rate design the typical bill for 5/8 x 3/4-inch meter customers with a median use of 7,800 gallons would increase by \$2.47 or 10.7 percent from \$23.15 to \$25.62.

¹ The Company is not proposing a fair value rate base that differs from the OCRB.

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Fact sheet

Company Statistics:

Transfer of Certificate of Convenience and Necessity ("CC&N"): Decision No. 65219, dated September 24, 2002

Current Rates: Decision No. 70291, dated April 24, 2008

Type of Ownership: LLC.

Location: Winchester Water Company is located in an unincorporated subdivision ten miles northwest of Wilcox in Cochise County.

Rates:

Company Application Docketed: May 5, 2010

Current Test Year Ended: December 31, 2008

Application Found Sufficient: July 16, 2010

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
Monthly Minimum Charge (Based on a 5/8" X 3/4" meter)	\$12.00	\$15.95	\$13.50
Gallons in Minimum	0	0	0
Commodity Charge:			
Excess of minimum, charge per 1,000 gallons:			
0 to 3,000 Gallons	\$ 0.80	\$ 1.95	\$ 1.00
3,001 to 10,000 Gallons	\$ 1.25	\$ 2.55	\$ 1.90
Over 10,001 Gallons	\$ 1.99	\$ 2.95	\$ 3.30
Typical residential bill based On median usage of 7,800 gallons	\$23.15	\$39.65	\$25.62

Customers:

Number of customers in the prior test year (12/31/2007) 129

Number of customers in the current test year (12/31/2008) 137

Current year customers by meter size: 5/8 X 3/4 - inches 138

Seasonal customers: N/A

Initial customer notification mailed: May 5, 2010

Second customer notification mailed: June 8, 2010

Number of customer complaints since rate application filed: 0

Percentage of complaints to customer base: 0

Summary of Filing

The test year results, as adjusted by Staff, for Winchester Water Company, L.L.C. ("Winchester" or "Company") show total operating revenue of \$41,367 and operating expenses of \$45,444 resulting in a \$4,077 operating loss. A rate of return on the \$142,943 original cost rate base ("OCRB") is not meaningful due to the operating loss.

The Company proposed rates, as filed, produce total operating revenue of \$70,102 and operating income of \$20,545 for a 14.37 percent rate of return on an OCRB of \$142,943.² The Company's proposed rates would increase the typical residential bill, with a median usage of 7,800 gallons, by \$16.50, from \$23.15 to \$39.65, for an increase of 71.3 percent (Schedule 5).

Staff recommends rates that produce total operating revenue of \$60,342 that would provide the Company with operating income of \$14,898 for an 10.36 percent rate of return on a \$143,845 OCRB. Since the Company did not file reconstruction cost new information, Staff recommends recognizing a fair value rate base equal to the OCRB. The typical residential bill for a 5/8 x 3/4-inch customer, with a median usage of 7,800 gallons, would increase by \$2.47, or 10.7 percent, from \$23.15 to \$25.62.

Company Background

Winchester Water Company, L.L.C. is an Arizona Limited Liability Corporation engaged in the business of providing potable water service. The CC&N for the water system was granted in Decision No. 35366, dated August 14, 1964. Mr. and Mrs. Charles Cardinal purchased the system on September 30, 1987, and initially operated it as a partnership. The Cardinals began operating the Company as a limited liability company on July 18, 1995. On September 24, 2002, the CC&N was transferred to the Company in Decision No. 65219. On August 7, 2007, the Company filed for a rate increase. On April 24, 2008, Decision No 70291 established the current rates which are now in effect.

Winchester filed its application for a permanent rate increase ("Application") on May 5, 2010. Staff deemed the Company's Application insufficient and notified Winchester by letter on

² The Company is not proposing a fair value rate base that differs from the OCRB.

June 4, 2010. The Company subsequently provided information satisfying the deficiencies and Staff found the Application sufficient on July 16, 2010. The Company also provided evidence in its Application that customers had been notified of the filing by mail on May 4, 2010. Staff requested that the Company mail a second notice to customers because the initial notice lacked information on certain charges contained in the Company's Application. Winchester complied with Staff's request, and provided a notarized affidavit dated June 8, 2010, stating that the Company had re-noticed its customers.

Consumer Services

A review of the Consumer Service records showed that no formal complaints, no informal complaints, one inquiry, and no opinions were filed regarding Winchester within the past three years. No formal complaints, no informal complaints, inquiries or opinions have been filed pertaining to Company's filing for an increase in rates.

A review of the Company's billing format indicates that it is in compliance with the Arizona Administrative Code ("AAC") R14-2-409.B.2. The Company submitted a Cross Connection /Backflow Tariff through Docket Control on November 19, 2007.

Compliance Issues

A search of the Arizona Corporation Commission ("Commission") Utilities Division database revealed that Winchester is in full compliance with prior Commission decisions.

The Company is current on filing both its corporate and utility annual reports. The Company is current on its property tax obligations.

Engineering Analysis

The Arizona Department of Environmental Quality ("ADEQ") reported that the system has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4. Details of Staff's review of the system are presented in the Staff Engineering Report – Attachment A.

The Company is in compliance with the new arsenic maximum contaminant level. The Company is not located in an Active Management Area ("AMA") and is not subject to conservation and monitoring requirements by the Arizona Department of Water Resources ("ADWR").

Rate Base

Staff's three rate base adjustments increase the Company's proposed rate base by \$902 from \$142,943 to \$143,845, as shown in Schedule 2, page 1. Details of Staff's adjustments are explained below.

Land – In adjustment A, Staff decreased land by \$2,650 from \$5,884 to \$3,234 as shown on Schedule 2, page 2. The Company acquired three lots in 2002 to serve as potential well sites. Eventually, the Company decided to use an alternative site for its second well. Since the land at the three lots is not presently used and useful, Staff removed them from rate base.

Accumulated Depreciation - In adjustment B, Staff decreased Accumulated Depreciation by \$132 from \$56,015 to \$55,883 as shown in Schedule 2, page 3. Staff calculated an accumulated depreciation balance by adding depreciation expense for the years 2007 and 2008 and subtracting accumulated depreciation for recorded plant retirements to the Commission approved balance for accumulated depreciation in the prior test year ended December 31, 2006.

Working Capital – In adjustment C, Staff included a cash working capital allowance of \$3,420 based on the formula method as shown in Schedule 2, page 1. The formula method recognizes one-eighth of the operating expenses excluding depreciation, taxes, purchased water and purchased power expenses plus one twenty-fourth of purchased power expenses.

Operating Income

Staff's three operating adjustments decrease the Company's proposed total operating expenses by \$4,113, from \$49,557 to \$45,444, as shown on Schedule 3, page 1. Details of Staff's adjustments are discussed below.

Repairs and Maintenance – Adjustment D decreased this account by \$4,343, from \$8,366 to \$4,023 to reflect a normalized level of expenses. Staff observed that repairs and maintenance expenses increased significantly over time, totaling \$1,471 in 2006, \$2,232 in 2007, and \$8,366 in the test year. In response to Staff data request GTM-1.10, the Company acknowledged deferring some routine maintenance and equipment repair from 2006 and 2007 to 2008. The Company's response indicates that due to the lack of sufficient funds "it just naturally follows that more had to be spent in 2008 to repair equipment." Due to the deferral and the wide variances in this account among years, Staff recommends a normalized amount equal to the average for the years 2006 through 2008.

Water Testing – Adjustment E increases water testing expenses by \$57 to reflect Staff's recommended amount of water testing expense.

Depreciation – Adjustment F increased this account by \$173 from \$10,664 to \$10,837 to reflect application of Staff's recommended depreciation rates to Staff's recommended depreciable plant amounts. Staff noted several mathematical errors in the Company's depreciation calculation.

Capital Structure

As of December 31, 2008, the Company had a total equity position of \$142,973 consisting of negative \$45,931 in retained earnings and \$188,904 in proprietary capital.

Winchester has no outstanding debt as of December 31, 2008. On January 13, 2010, Phil Auernheimer entered into an agreement with Charles Cardinal to purchase Winchester Water Company, LLC. On April 12, 2010, Mr. Auernheimer filed an application for approval of Sale and/or Transfer of Certificate of Convenience and Necessity with the Commission. The status of this application is still pending.

Revenue Requirement

Staff recommends total operating revenue of \$60,342, a \$18,975 or 45.87 percent increase over the Staff adjusted Test Year operating revenue of \$41,367. Staff's recommended revenue provides an operating income of \$14,898, operating margin of 24.69 percent, and 10.36 percent return on a rate base of \$143,845, as shown in Schedule 1. Staff's recommended revenue is sufficient to cover operating, maintenance and capital costs.

Rate Design

Schedule 4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The present rate design follows an inverted three-tier commodity rate structure with break over points at 3,000 and 10,000 gallons for all meter sizes and with no gallons included in the minimum monthly charge.

The Company proposes a similar but different rate structure that reduces the relative difference among the tier rates and recovers more revenue from lower use. The proposed increase in monthly customer charges varies by meter size as follows: 5/8 x 3/4-inch, \$3.95 (33 percent); 3/4-inch, \$3.95 (22 percent); and no proposed increase for the remaining meters. The proposed minimum monthly charges vary from \$15.95 for 5/8 x 3/4-inch to \$600.00 for a 6-inch meter. Under the Company's proposed rates, the percentage of water sales revenue collected from the minimum monthly charges is 37.4 percent, a decrease from 44.8 percent under current rates. The Company's proposed rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$16.50, or 71.3 percent, from \$23.15 to \$39.65.

Staff also recommends an inverted tier rate structure that is similar but different from the existing rate structure. Staff's recommended rate structure increases the relative difference among the tier rates and recovers more revenue from higher use to encourage efficient water use. For 5/8 x 3/4-inch and 3/4-inch meters Staff's recommended rate structure includes three tiers with break-over points at 3,000 and 10,000 gallons. For larger meters, Staff recommends two tiers with break-over points that increase with meter size. Currently, the Company has only 5/8 x 3/4-inch meter customers. Staff recommends minimum charges (with no gallons included) that vary from \$13.50 for 5/8 x 3/4-inch to \$725.00 for a 6-inch meter based on volumetric capacity and represent a uniform 12.5 percent increase over the existing charges. Staff's recommended rates would increase the median usage 5/8 x 3/4-inch meter residential customer's bill by \$2.47 or 10.7 percent, from \$23.15 to \$25.62.

The Company, with the exception of Non-Sufficient Funds ("NSF") charges, does not propose to change any of its service charges. The Company does propose to increase the NSF charge from \$25.00 to \$30.00. Staff finds \$30.00 as a reasonable and normal charge and recommends it. Staff also recommends increasing the monthly service charge for fire sprinklers to 2.00 percent of the monthly minimum for a comparable size meter connection, but no less than \$10.00 per month. The Company does not propose to change its service line and meter installation charges, and neither does Staff.

Staff Recommendations

Staff recommends:

- Approval of Staff's rates and charges as shown on Schedule 4. In addition to collection of its regular rates and charges, the Company may collect from its customers a proportionate share of any privilege, sales or use tax per Commission Rule (14-2-409D.5).
- That the Company file with Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
- Authorization of the depreciation rates shown in Table B of the Engineering report.
- Authorization of the meter and service line charges shown on Table C of the Engineering report.

SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$40,525	\$40,525	\$69,260	\$59,500
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	842	842	842	842
Total Operating Revenue	\$41,367	\$41,367	\$70,102	\$60,342
Operating Expenses:				
Operation and Maintenance	\$37,155	\$32,869	\$37,155	\$32,869
Depreciation	10,664	10,837	10,664	10,837
Property & Other Taxes	1,738	1,738	1,738	1,738
Income Tax	0	0	0	0
Total Operating Expense	\$49,557	\$45,444	\$49,557	\$45,444
Operating Income/(Loss)	(\$8,190)	(\$4,077)	\$20,545	\$14,898
Rate Base O.C.L.D.	\$142,943	\$143,845	\$142,943	\$143,845
Rate of Return - O.C.L.D.	N/M	N/M	14.37%	10.36%
Times Interest Earned Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Debt Service Coverage Ratio (Pre-Tax)	N/M	N/M	N/M	N/M
Operating Margin	N/M	N/M	29.31%	24.69%

- NOTES:
1. The times interest earned ratio (TIER) represents the ability of the Company to pay interest expenses before taxes.
 2. Because the Company has zero outstanding long term debt, the TIER and DSC ratios are not meaningful.
 3. Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

RATE BASE

	----- Original Cost -----			
	Company	Adjustment		Staff
Plant in Service	\$215,981	(\$2,650)	A	\$213,331
Less:				
Accum. Depreciation	56,015	(132)	B	55,883
Net Plant	\$159,966	(\$2,518)		\$157,448
Less:				
Plant Advances	\$17,023	\$0		\$17,023
Accumulated Deferred Income Taxes	0	0		0
Total Advances	\$17,023	\$0		\$17,023
Contributions Gross	\$0	\$0		\$0
Less:				
Amortization of CIAC	0	0		0
Net CIAC	\$0	\$0		\$0
Total Deductions	\$17,023	\$0		\$17,023
Plus:				
1/24 Power	\$0	\$344	C	\$344
1/8 Operation & Maint.	0	3,076	C	3,076
Inventory	0	0		0
Prepayments	0	0		0
Total Additions	\$0	\$3,420		\$3,420
Rate Base	\$142,943	\$902		\$143,845

Explanation of Adjustment:

- A Removal of 3 lots acquired as potential well sites but not presently used & useful.
- B Increase to accumulated depreciation to reflect application of the authorized depreciation rates for the intervening years since the effective date of existing rates.
- C Winchester did not request a cash working capital allowance. Staff calculated a cash working capital allowance based on revisions to operating expenses.

PLANT ADJUSTMENT

	Company Exhibit	Adjustment	Staff Adjusted
301 Organization	\$0	\$0	\$0
302 Franchises	0	0	0
303 Land & Land Rights	5,884	(2,650) A	3,234
304 Structures & Improvements	8,321	0	8,321
307 Wells & Springs	83,835	0	83,835
311 Pumping Equipment	42,630	0	42,630
320 Water Treatment Equipment	0	0	0
330 Distribution Reservoirs & Standpipes	40,049	0	40,049
331 Transmission & Distribution Mains	10,300	0	10,300
333 Services	14,200	0	14,200
334 Meters & Meter Installations	8,070	0	8,070
335 Hydrants	0	0	0
336 Backflow Prevention Devices	0	0	0
339 Other Plant and Misc. Equipment	0	0	0
340 Office Furniture & Equipment	0	0	0
341 Transportation Equipment	0	0	0
343 Tools Shop & Garage Equipment	0	0	0
344 Laboratory Equipment	0	0	0
345 Power Operated Equipment	0	0	0
346 Communication Equipment	0	0	0
347 Miscellaneous Equipment	0	0	0
348 Other Tangible Plant	2,115	0	2,115
309 Flowhead Meters	577	0	577
TOTALS	\$215,981	(\$2,650)	\$213,331

Explanation of Adjustment:

- A The Company acquired these three lots in 2002 as potential well sites. The Company decided to use another lot to construct a second well instead. The Company is holding these lots for future development. Since these lots are not used and useful, Staff removed them from

ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$56,015
Accumulated Depreciation - Per Staff	55,883
Total Adjustment	<u>(\$132)</u>

Explanation of Adjustment:

	<u>Per Co.</u>	<u>Per Staff</u>	<u>Difference</u>
B - <i>Accumulated Depreciation</i>			
Transmission & Distb. Mains	6,435	6,677	242
Meters & Meter Install	3,456	3,084	(372)
Rounding			<u>(2)</u>
Cumulative Adjustment			<u><u>(132)</u></u>

STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$40,525	\$0	\$40,525
460 Unmetered Water Revenue	0	0	0
474 Other Water Revenues	842	0	842
Total Operating Revenue	\$41,367	\$0	\$41,367
Operating Expenses:			
601 Salaries and Wages	\$0	\$0	\$0
610 Purchased Water	0	0	0
615 Purchased Power	8,263	0	8,263
618 Chemicals	0	0	0
620 Repairs and Maintenance	8,366	(4,343) D	4,023
621 Office Supplies & Expense	1,016	0	1,016
630 Outside Services	17,360	0	17,360
635 Water Testing	960	57 E	1,017
641 Rents	612	0	612
650 Transportation Expenses	211	0	211
657 Insurance - General Liability	0	0	0
659 Insurance - Health and Life	0	0	0
666 Regulatory Commission Expense - Rate Case	0	0	0
675 Miscellaneous Expense	367	0	367
403 Depreciation Expense	10,664	173 F	10,837
408 Taxes Other Than Income	0	0	0
408.11 Property Taxes	1,738	0	1,738
409 Income Tax	0	0	0
Total Operating Expenses	\$49,557	(\$4,113)	\$45,444
OPERATING INCOME/(LOSS)	(\$8,190)	\$4,113	(\$4,077)
Other Income/(Expense):			
419 Interest and Dividend Income	\$0	\$0	\$0
421 Non-Utility Income	187	0	187
427 Interest Expense	0	0	0
4XX Reserve/Replacement Fund Deposit	0	0	0
426 Miscellaneous Non-Utility Expense	0	0	0
Total Other Income/(Expense)	\$187	\$0	\$187
NET INCOME/(LOSS)	(\$8,003)	\$4,113	(\$3,890)

STAFF ADJUSTMENTS

D -	REPAIRS AND MAINTENANCE - Per Company	\$8,366	
	Per Staff	4,023	(\$4,343)

Staff normalized repairs & maintenance expenses which totaled \$1,471, \$2,232, and \$8,366 in 2006, 2007, and 2008, respectively.

E -	WATER TESTING - Per Company	\$960	
	Per Staff	1,017	\$57

Staff normalized water testing expenses.

F -	DEPRECIATION - Per Company	\$10,664	
	Per Staff	10,837	\$173

Explanation of Adjustment:

Pro Forma Annual Depreciation Expense:

Plant in Service	\$213,331
Less: Non Depreciable Plant	3,234
Fully Depreciated Plant	0
Depreciable Plant	\$210,097
Times: Weighted Average of Component Depreciation Rates	5.16%
Credit to Accumulated Depreciation	\$10,837
Less: Amort. of CIAC* @ 5.16%	0
Pro Forma Annual Depreciation Expense	\$10,837

RATE DESIGN

Monthly Usage Charge	Present	-Proposed Rates-	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$12.00	\$15.95	\$13.50
3/4" Meter	18.00	21.95	20.25
1" Meter	30.00	30.00	33.75
1½" Meter	60.00	60.00	67.50
2" Meter	96.00	96.00	108.00
3" Meter	192.00	192.00	216.00
4" Meter	300.00	300.00	337.50
6" Meter	600.00	600.00	675.00
Gallons Included in Minimum	0	0	0
<u>Commodity Rate Charge</u>			
<u>5/8" x 3/4" Meter</u>			
Tier 1 From 0 to 3,000 gallons	0.80	1.95	1.00
Tier 2 From 3,001 to 10,000 gallons	1.25	2.55	1.90
Tier 3 Over 10,000 gallons	1.99	2.95	3.30
<u>3/4" Meter</u>			
Tier 1 From 0 to 3,000 gallons	0.80	1.95	1.00
Tier 2 From 3,001 to 10,000 gallons	1.25	2.55	1.90
Tier 3 Over 10,000 gallons	1.99	2.95	3.30
<u>1" Meter</u>			
Tier 1 From 0 to 20,000 gallons	1.25	2.55	1.90
Tier 2 Over 20,000 gallons	1.99	2.95	3.30
<u>1½" Meter</u>			
Tier 1 From 0 to 55,000 gallons	1.25	2.55	
Tier 2 Over 55,000 gallons	1.99	2.95	
Tier 1 From 0 to 45,000 gallons			1.90
Tier 2 Over 45,000 gallons			3.30
<u>2" Meter</u>			
Tier 1 From 0 to 100,000 gallons	1.25	2.55	
Tier 2 Over 100,000 gallons	1.99	2.95	
Tier 1 From 0 to 76,000 gallons			1.90
Tier 2 Over 76,000 gallons			3.30
<u>3" Meter</u>			
Tier 1 From 0 to 220,000 gallons	1.25	2.55	
Tier 2 Over 220,000 gallons	1.99	2.95	
Tier 1 From 0 to 155,000 gallons			1.90
Tier 2 Over 155,000 gallons			3.30
<u>4" Meter</u>			
Tier 1 From 0 to 350,000 gallons	1.25	2.55	
Tier 2 Over 350,000 gallons	1.99	2.95	
Tier 1 From 0 to 250,000 gallons			1.90
Tier 2 Over 250,000 gallons			3.30
<u>6" Meter</u>			
Tier 1 From 0 to 730,000 gallons	1.25	2.55	
Tier 2 Over 730,000 gallons	1.99	2.95	
Tier 1 From 0 to 500,000 gallons			1.90
Tier 2 Over 500,000 gallons			3.30

RATE DESIGN

Service Line and Meter Installation Charges			Total	Service	
				Line	Meter
5/8" x 3/4" Meter	\$450.00	\$450.00	\$450.00	\$ 360.00	\$ 90.00
3/4" Meter	500.00	500.00	500.00	360.00	140.00
1" Meter	565.00	565.00	565.00	380.00	185.00
1½" Meter	800.00	800.00	800.00	415.00	385.00
2" Meter	1,390.00	1,390.00	1,390.00	560.00	830.00
3" Meter	1,990.00	1,990.00	1,990.00	720.00	1,270.00
4" Meter	3,055.00	3,055.00	3,055.00	1,040.00	2,015.00
6" Meter	5,650.00	5,650.00	5,650.00	\$ 1,590.00	\$ 4,060.00
<u>Service Charges</u>					
Establishment	\$25.00	\$25.00	\$25.00		
Establishment (After Hours)	40.00	40.00	40.00		
Reconnection (Delinquent)	30.00	30.00	30.00		
Meter Test (If Correct)	25.00	25.00	25.00		
Deposit	0.00	0.00	*		
Deposit Interest	0.00%	0.00%	*		
Re-Establishment (Within 12 Months)	0.00	**	**		
NSF Check	25.00	30.00	30.00		
Deferred Payment	1.50%	1.50%	1.50%		
Meter Re-Read (If Correct)	20.00	20.00	20.00		
<u>Monthly Service Charge for Fire Sprinkler</u>					
4" or Smaller	\$0.00	\$0.00	***		
6"	0.00	0.00	***		
8"	0.00	0.00	***		
10"	0.00	0.00	***		
Larger than 10"	0.00	0.00	***		

* Per Commission Rules (R14-2-403.B)

** Months off system times the minimum (R14-2-403.D)

*** 2.00% of Monthly Minimum for a Comparable Sized Meter Connection, but no less than \$10.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

TYPICAL BILL ANALYSIS
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 136

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	10,454	\$24.05	\$40.99	\$16.94	70.4%
Median Usage	7,800	\$23.15	\$39.65	\$16.50	71.3%

<u>Staff Recommend</u>					
Average Usage	10,454	\$24.05	\$31.30	\$7.25	30.1%
Median Usage	7,800	\$23.15	\$25.62	\$2.47	10.7%

Present & Proposed Rates (Without Taxes)
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Proposed Rates</u>	<u>% Increase</u>
0	\$12.00	\$15.95	32.9%	\$13.50	12.5%
1,000	12.80	17.90	39.8%	14.50	13.3%
2,000	13.60	19.85	46.0%	15.50	14.0%
3,000	14.40	21.80	51.4%	16.50	14.6%
4,000	15.65	24.35	55.6%	18.40	17.6%
5,000	16.90	26.90	59.2%	20.30	20.1%
6,000	18.15	29.45	62.3%	22.20	22.3%
7,000	19.40	32.00	64.9%	24.10	24.2%
8,000	20.65	34.55	67.3%	26.00	25.9%
9,000	21.90	37.10	69.4%	27.90	27.4%
10,000	23.15	39.65	71.3%	29.80	28.7%
15,000	33.10	54.40	64.4%	46.30	39.9%
20,000	43.05	69.15	60.6%	62.80	45.9%
25,000	53.00	83.90	58.3%	79.30	49.6%
50,000	102.75	157.65	53.4%	161.80	57.5%
75,000	152.50	231.40	51.7%	244.30	60.2%
100,000	202.25	305.15	50.9%	326.80	61.6%
125,000	252.00	378.90	50.4%	409.30	62.4%
150,000	301.75	452.65	50.0%	491.80	63.0%
175,000	351.50	526.40	49.8%	574.30	63.4%
200,000	401.25	600.15	49.6%	656.80	63.7%

Winchester Water Company LLC

Docket No. W-0408A-10-0173
 Test Year Ended December 31, 2008

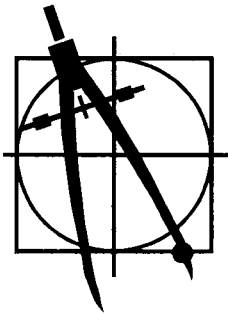
Schedule 6

OPERATING INCOME ADJUSTMENT G - DEPRECIATION EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED
1	Depreciation Expense	\$ 10,664	\$ 173	\$ 10,837

OPERATING INCOME ADJUSTMENT # - DEPRECIATION EXPENSE

Line No.	ACCT NO.	DESCRIPTION	[A] Company Proposed PLANT IN SERVICE BALANCE	[B] STAFF DEPR. PLANT BALANCE	[C] STAFF RECOMMENDED RATE	[D] STAFF RECOMMENDED EXPENSE
		Plant In Service				
2	301	Organization	\$ -	\$ -	0.00%	\$ -
3	302	Franchises	-	-	0.00%	-
4	303	Land & Land Rights	5,884	3,234	0.00%	-
5	304	Structures & Improvements	8,321	8,321	3.33%	277
6	307	Wells & Springs	83,835	83,835	3.33%	2,792
7	311	Pumping Equipment	42,630	42,630	12.50%	5,414
8	320.1	Water Treatment Plants	-	-	3.33%	-
9	320.2	Solution Chemical Feeders	-	-	20.00%	-
10	330.1	Storage Tanks	32,993	32,993	2.22%	732
11	330.2	Pressure Tanks	7,056	7,056	5.00%	353
12	331	Transmission & Distribution Mains	10,300	10,300	2.00%	206
13	333	Services	14,200	14,200	3.33%	473
14	334	Meters & Meter Installations	8,070	8,070	8.33%	579
15	335	Hydrants	-	-	2.00%	-
16	336	Backflow Prevention Devices	-	-	6.67%	-
17	339	Other Plant and Misc. Equipment	-	-	6.67%	-
18	340	Office Furniture & Equipment	-	-	6.67%	-
19	341	Transportation Equipment	-	-	20.00%	-
20	343	Tools Shop & Garage Equipment	-	-	5.00%	-
21	344	Laboratory Equipment	-	-	10.00%	-
22	345	Power Operated Equipment	-	-	5.00%	-
23	346	Communication Equipment	-	-	10.00%	-
24	347	Miscellaneous Equipment	-	-	10.00%	-
25	348	Other Tangible Plant	2,115	2,115	0.00%	-
26	309	Flowhead Meters	577	577	2.00%	12
27						
28		Subtotal General	\$ 215,981	\$ 213,331		\$ 10,837
29		Less: Non- depreciable Account(s)	5,884	3,234		
30		Depreciable Plant (L29-L30)	\$ 210,097	\$ 210,097		
31						
32		Contributions-in-Aid-of-Construction (CIAC)			\$ -	
33		Composite Depreciation/Amortization Rate			5.1583%	
34		Less: Amortization of CIAC (L32 x L33)				\$ -
35		Depreciation Expense - STAFF				\$ 10,837



Engineering Report for:
Winchester Water Company for a Rate Increase
Docket No. W-04081A-10-0173

By: Jian W Liu
Utilities Engineer

August 16, 2010

EXECUTIVE SUMMARY

CONCLUSIONS:

1. The Arizona Department of Environmental Quality ("ADEQ") regulates the Winchester Water Company ("Winchester Water" or "Company") system under ADEQ Public Water System I.D. No. 02-110. ADEQ has determined that this water system has no deficiencies and is currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.
2. Winchester Water has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.
3. The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. Arizona Corporation Commission Utilities Division Staff ("Staff") received an Arizona Department of Water Resources ("ADWR") compliance status report on June 23, 2010, indicating that ADWR has determined that Winchester Water Company is currently in compliance with departmental requirements governing water providers and/or community water systems.
4. Staff concludes that the Winchester Water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.
5. A check with the Utilities Division compliance Section showed no outstanding compliance issues.
6. The Company reported the water loss was less than 2.0 percent each year for last 5 years. Non-account water is within acceptable limits.

RECOMMENDATIONS:

1. Staff recommends that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners category as presented in Table B.
2. Staff further recommends water testing expenses based upon participation in the ADEQ Monitoring Assistance Program. Annual testing expenses should be adjusted to \$1,017 as described in Table 1.
3. Staff further recommends that the charges listed in Table C be adopted.

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D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE.....	2
E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE	2
F. WATER TESTING EXPENSES	2
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J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFF	7
K. METER AND SERVICE LINE INSTALLATION CHARGES	7

FIGURES

COUNTY MAP	FIGURE 1
CERTIFICATED AREA	FIGURE 2
PROCESS SCHEMATIC	FIGURE 3

A. INTRODUCTION AND LOCATION OF COMPANY

On May 5, 2010, Winchester Water filed an application to increase its rates with the Arizona Corporation Commission ("ACC" or "Commission") in Docket No. W-04081A-10-0173. The Company's water system is located approximately 10 miles northwest of Willcox in Cochise County with a certificated area covering approximately 1/4 square mile. Figure 1 shows the location of Winchester Water Company within Cochise County and Figure 2 shows the certificated area.

B. DESCRIPTION OF THE WATER SYSTEM

The plant facilities were visited on August 6, 2010 by Jian Liu, Commission Utilities Division Staff ("Staff") Utilities Engineer, in the accompaniment of Phil Auenheimer, Managing Partner for the Winchester Water Company.

The facility follows a typical configuration found in small water systems. It consists of two wells, two 2,000 gallon pressure tanks, three storage tanks and a distribution system serving 137 metered customers at test year ending December 31, 2008. Figure 3 provides a process schematic for the water system. Staff concludes that the Winchester Water system has adequate production capacity and storage capacity to serve the existing customer base and reasonable growth.

(Tabular Description of Water System)

Well Data		
	Well No 1	Well No 2
ADWR ID No.	55-540012	55-202781
Casing Size	8 inch	8 inch
Casing Depth	300 ft	650 ft
Pump Size	10 Hp	20 Hp
Pump Yield	135 gal/min	191 gal/min

Storage, Pumping		
Structure or equipment	Location	Capacity
booster pumps	Lot 14 and Lot 245	Two 5 HP
pressure tank	Well #1 and Well #2	Two 2,000 gal
Storage tank	Lot 14 and Lot 245	5,000, 11,400 and 20,000 gallons

Distribution Mains

Diameter (inch)	Material	Length(ft)
2	PVC	2,900
3	PVC	1800
4	PVC	8700
6	PVC	775

Meters

Size (inch)	Quantity
5/8 x 3/4	138

**C. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE
("ADEQ")**

ADEQ regulates the Winchester Water system under ADEQ Public Water System I.D. No. 02-110. ADEQ has determined that this system has no deficiencies and is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. (ADEQ Compliance Status Report dated 04/14/2010).

D. ARIZONA CORPORATION COMMISSION ("ACC") COMPLIANCE

A check with the Utilities Division compliance Section showed no outstanding compliance issues. (ACC Compliance Section Email dated 07/14/2010)

E. ARIZONA DEPARTMENT OF WATER RESOURCES ("ADWR") COMPLIANCE

The Company is not located in any Active Management Area ("AMA") and is not subject to any AMA reporting and conservation requirements. Staff received an ADWR compliance status report on June 23, 2010. ADWR reported that it has determined that Winchester Water Company is currently in compliance with departmental requirements governing water providers and/or community water systems.

F. WATER TESTING EXPENSES

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Participation in the MAP program is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$960.00 during the 2008 test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs. Table 1 shows Staff's annual monitoring expense estimate of \$1,017 with participation in the MAP.

Table 1 Water Testing Cost

Monitoring – 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Bacteriological – monthly	\$30	36	1080	360
MAP – IOCs, SOCs, & VOCs	MAP	MAP	MAP	607
Lead & Copper	150*	1	150	50
Total				\$1,017

Note: ADEQ's MAP invoice for the 2008 calendar year was \$607.23

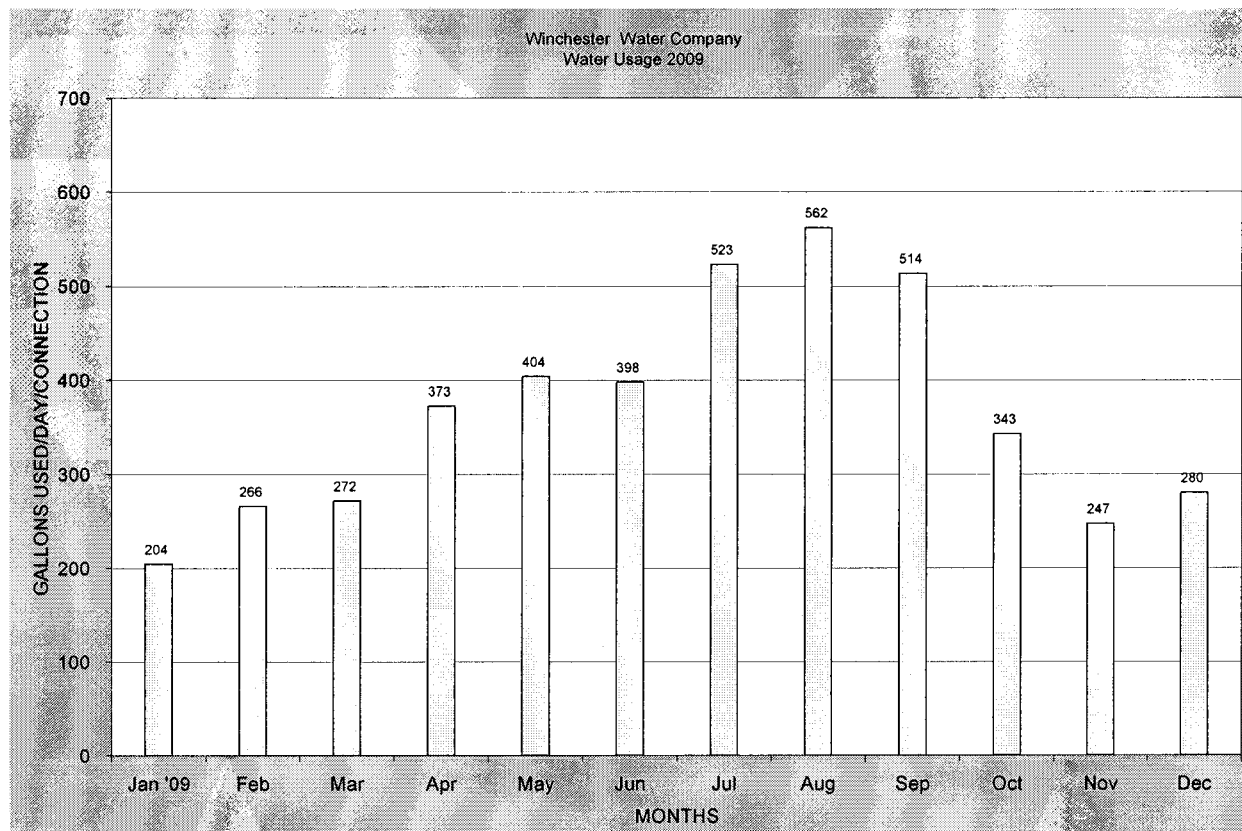
* Based on Company invoice.

Staff recommends its annual water testing expense of \$1,017 be used for purposes of this application.

G. WATER USE

Water Sold

Based on the information provided by the Company, water use for the year 2009 is presented below. The high monthly domestic water use was 562 gal/day per service connection in August and the low monthly domestic water use was 204 gal/day per service connection in January. The average annual use was 365 gal/day per service connection.



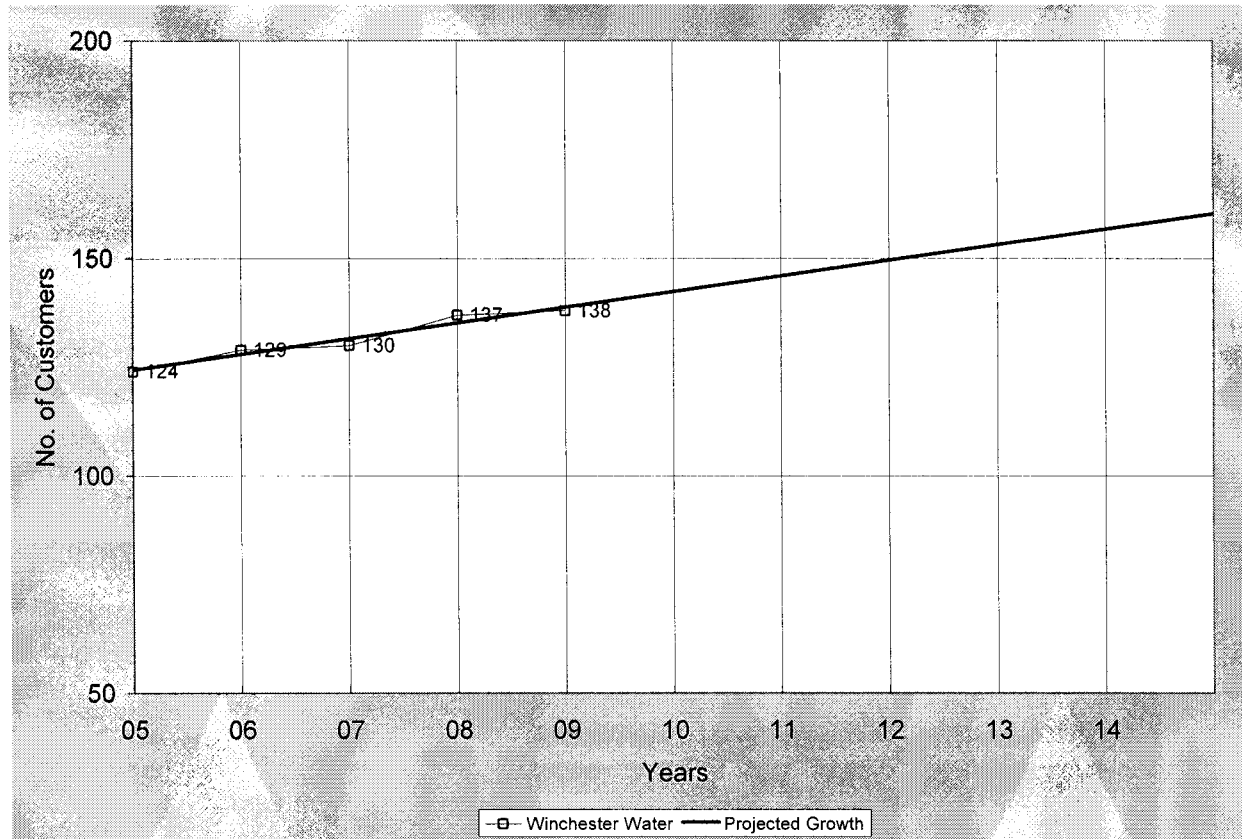
Non-account Water

Non-account water should be 10 percent or less and never more than 15 percent. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a water company to identify water and revenue losses due to leakage, theft, and flushing. The Company reported the water loss was less than 2.0 percent each year for last 5 years. Non-account water is within acceptable limits.

H. GROWTH

Figure 4 details the customer growth using linear regression analysis. The number of service connections was obtained from annual reports submitted to the Commission. During the test year 2008, the Company had 137 customers and it is projected that the Company could have approximately 155 customers by 2014.

Figure 4 Projected Growth



I. DEPRECIATION RATES

Staff recommends that the Company use depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category. Staff further recommends the depreciation rates presented in Table B.

Table B. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

NOTES:

- These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
- Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

J. CURTAILMENT PLAN AND BACKFLOW PREVENTION TARIFF

The Company has approved Curtailment Plan and Backflow Prevention Tariffs on file with the Commission.

K. METER AND SERVICE LINE INSTALLATION CHARGES

The Company did not propose any changes to its currently approved service line and meter installation charges. These charges are listed below in Table C. Staff recommends that the charges listed in Table C be adopted.

Table C. Service Line and Meter Installation Charges

Meter Size	Current Approved service line charges	Current Approved meter charges	Current Approved Total Charges
5/8 x3/4-inch	360	90	\$450
3/4-inch	360	140	\$500
1-inch	380	185	\$565
1-1/2-inch	415	385	\$800
2-inch	560	830	\$1,390
3-inch	720	1270	\$1,990
4-inch	1040	2015	\$3,055
6-inch	1590	4060	\$5,650

COCHISE COUNTY

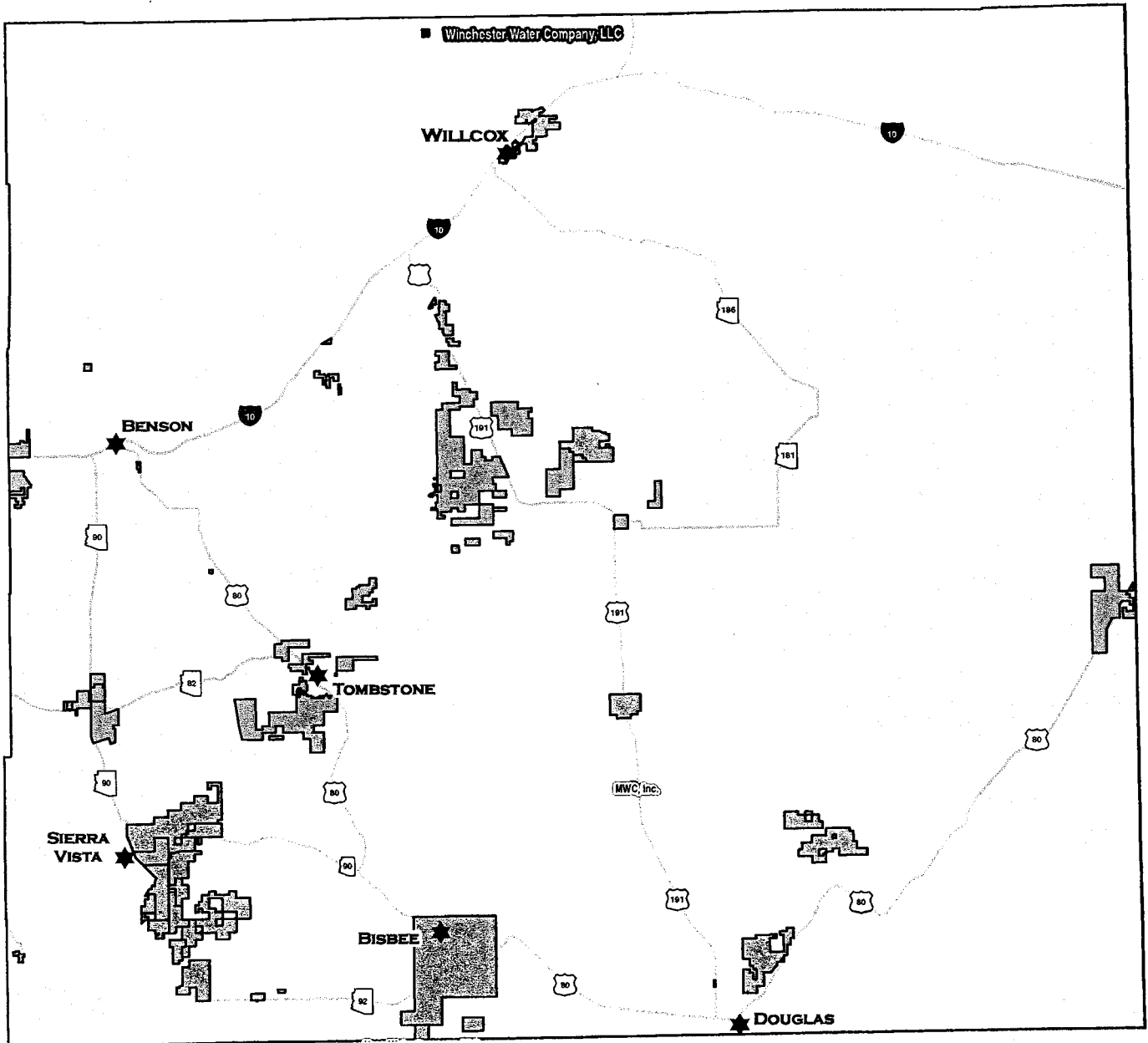


Figure A-1. County Map

COCHISE COUNTY

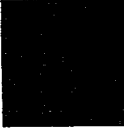
12S24E					
06	05	04	03	02	01
07 Winchester Water Company, LLC		09	10	11	12
18	17	16	15	14	13
19	20	21	22	23	24
30	29	28	27	26	25
31	32	33	34	35	36

Figure A-2. Certificated Area

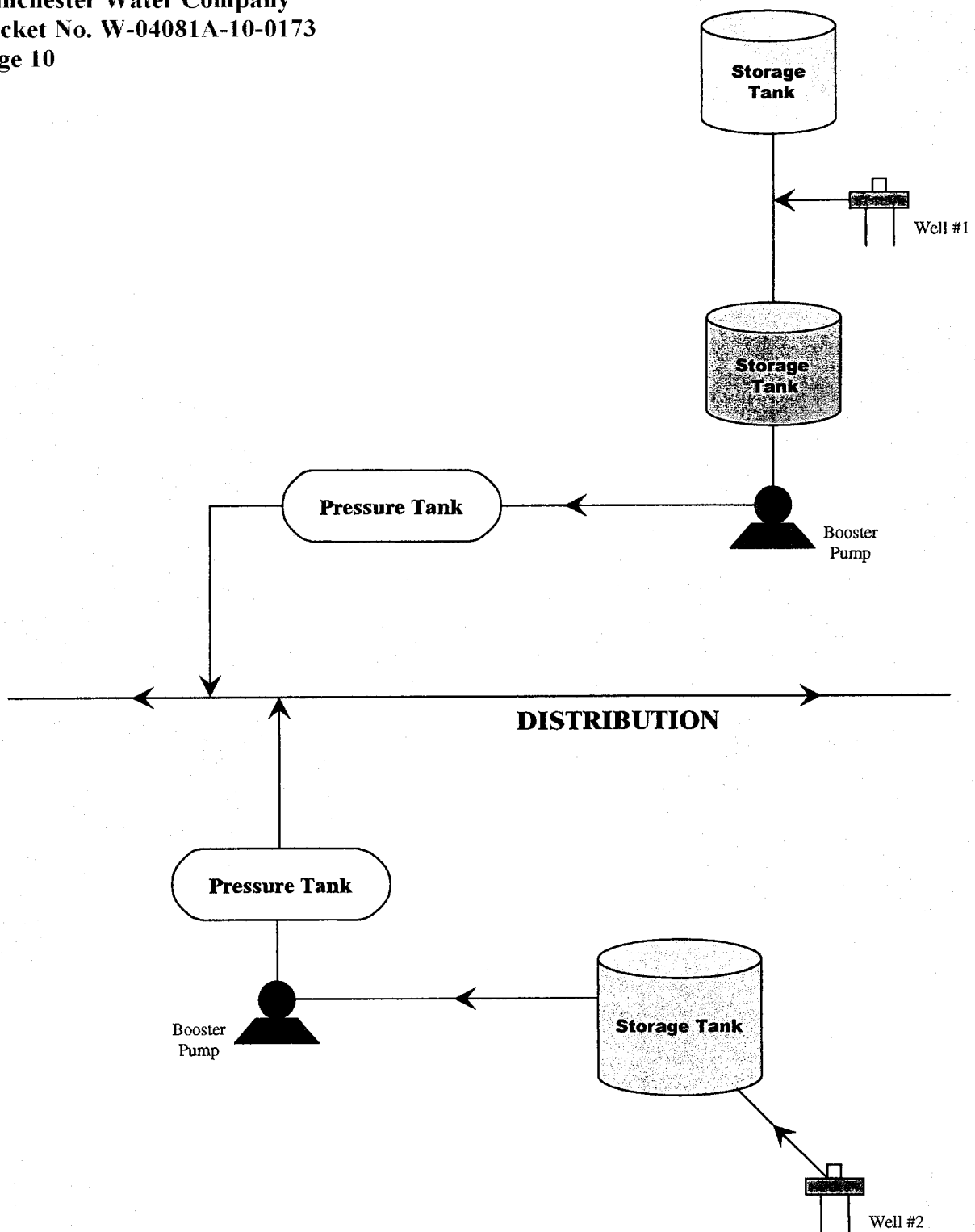
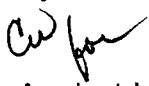



Figure 3. Process Schematic

MEMORANDUM

TO: Gary McMurry
Public Utility Analyst IV
Finance & Rate Analysis

FROM: Jenny Gomez 
Consumer Service Analyst I
Utilities Division

Richard Martinez
Consumer Service Analyst II
Utilities Division

THRU: Connie Walczak 
Consumer Services Manager
Utilities Division

DATE: August 23, 2010

RE: **IN THE MATTER OF THE APPLICATION OF WINCHESTER
WATER CO., LLC FOR APPROVAL OF A RATE INCREASE-
DOCKET NO. W-04081A-10-0173**

COMPANY HISTORY

Winchester Water Company, L.L.C. is an Arizona Limited Liability Corporation engaged in the business of providing potable water service. An initial CC&N for the water system was granted in Decision No. 35366, dated August 14, 1964. The next CC&N for the system was granted in Decision No. 46038, dated May 2, 1995. Mr. and Mrs. Charles Cardinal purchased the system on September 30, 1987 and initially operated it as a partnership. The Cardinals began operating the Company as a limited liability company on July 18, 1995. On September 24, 2002 the CC&N was transferred to the Company in Decision No. 65219. There are currently 138 residential customers per 2009 Annual Report.

COMPLAINT HISTORY

For the period of January 1, 2007 through August 18, 2010, Consumer Services records reflect that there are zero complaints filed against the Company.

OPINION HISTORY (FOR OR AGAINST RATE INCREASE)

For the period of January 1, 2007 through August 18, 2010, Consumer Services records reflect that there are zero opinions filed against the Company.

SUFFICIENCY STATUS

The Company met sufficiency status on July 16, 2010.

AFFIDAVIT OF MAILING

The Company's Affidavit of Mailing of the Customer Notification was filed on June 8, 2010.

BILL FORMAT COMPLIANCE

A review of the Company's bill format indicates that it is in compliance with the Arizona Administrative Code R14-2-409.B.2.

CORPORATIONS DIVISION STATUS

Per the Corporation Division of the Commission, the Company is in "Good Standing".

CROSS CONNECTION/BACK-FLOW TARIFF

The Company has a Cross-Connection/Backflow Tariff for the Winchester Water Co. L.L.C. effective December 20, 2007.

CURTAILMENT TARIFF

Winchester Water Co. L.L.C. has a curtailment tariff which became effective on October 1, 2002.

PUBLIC COMMENT MEETING

No Public Comment Meeting has been scheduled at this time.

HEARING DATE

No hearing date has been scheduled.

INTERVENORS

As of this date no interveners have filed.

Cc: Engineering
File